ONTARIO AGRICUTURAL ECONOMICS

RESEARCH AND SERVICES COMMITTEE

1999 ANNUAL REPORT
TO

ONTARIO AGRICULTURAL SERVICES

COORDINATING COMMITTEE

JANUARY 15, 1999

102-05357/

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A. Executive Summary

The Agricultural Economics Research and Services Committee continues to evolve in a positive fashion. They expanded their membership of stakeholders to better represent the needs of the agri-food industry and rural sector. The Committee also established linkages with other related Research and Services Committees and University of Guelph Research Programs.

The research priorities established last year were ranked to reflect the current needs of the agri-food industry and rural sectors. The six main research areas are (in priority order):
1) Risk Management, 2) Environment, 3) Competitiveness of the Agri-Food Industry, 4) Economic Data and Benchmarking , 5) Marketing and 6) Trade.

The Committee plans to meet several times this year to further develop their business plan.

B. Introduction

This report is the first annual report for the Ontario Agricultural Research and Services Committee (OAERSC). The Committee Chair has endeavoured to follow the new reporting template as stated in the revised OASCC manual (Oct 1999) as much as possible. Some sections of the report are incomplete at this time as the committee is still in the developmental stage. The committee plans to meet several times during this next year to further develop their business plan and research priorities.

Committee membership was expanded this year to include representatives from the Ontario Cattlemen's, Ontario Corn Producer's, Ontario Fruit and Vegetable Growers and Ontario Pork Producers Associations, Farm Credit Corporation, Canadian Imperial Bank of Commerce and Royal Bank, The Ontario Rural Council and Agriculture and Agri-Food Canada. This increase in stakeholder representation should ensure that OAERSC's economic research and service priorities/recommendations accurately reflect the needs of the agri-food industry and rural sectors.

Linkages with other related Research and Service Committees and University of Guelph research programs were strengthened this year by: 1- the additional exoficio memberships of Dr. Tony Fuller, Program Director of the Sustainable Rural Communities Research Program (SRC) and Helga McDonald, Chair of the Rural Research and Services Committee (RRSC), 2- the committee liaison appointment of Daphne Peer, the current OMAFRA Research Analyst liaison for the RRSC and 3-the attendance of Paul Brine, OMAFRA Research Analyst liaison for Soil, Water and Air Research and Service Committee (OSWARSC) and Ontario Horticultural Crops Research and Services Committee (OHCRSC).

C. Mandate

The mandate of the committee is to identify and prioritize future agricultural economics research and service needs of the stakeholders in the Ontario agri-food industry and rural sectors. The mandate will be revised/expanded upon during subsequent meetings this year.

D. Sector Scan

The face of the Ontario agri-food industry continues to change. The farm population in Ontario continues to decline as a percentage of the overall rural population. At the same time Ontario farms continue to lead the nation in agriculture production from a diverse base of commodities and sectors with farm cash receipts of $6.0B in 1997.

Provincial net realized farm income continues to be flat, with no expectation that the situation will improve markedly in the near term horizon. Low world commodity prices and high rates of agricultural subsidization in the USA and the EU are likely to continue given the difficult WTO negotiations.

The stated desire to increase Ontario food exports from $5.6B in 1997 to $10B by 2005 provides an excellent window for Ontario's primary producers to continue to see growth in that sector. Needless to say the opportunity for the processing and value added sectors are also very encouraging. There are three major hurdles which need to be overcome if this goal is to be achieve. Low world prices for many agricultural commodities make expansion uneconomic. There is serious doubt that the needed infrastructure is in place to allow for such an expansion. Lastly, there is considerable public resistance to the environmental and rural social impacts of large livestock operations due to the relatively high population density in rural southern Ontario.

The global marketplace can and will hold opportunities for our agri-food industry. At the same time few economists are predicating any substantial strengthening in the global marketplace during the next 2 to 3 years. High rates of domestic and trade subsidization of the grains and oilseeds sector are expected to continue. Few businesses will succeed by attempting to be the lowest cost producer. The need to move up the value chain is obvious. The management skill required to do so is much greater than that required of a commodity producer/seller.

It is estimated that 120,000 Canadian farmers will reach 65 years of age in the next decade. These farmers manage $50 billion dollars worth of farm capital. In other words $380,257 worth of farm assets will be transferred every hour of every day until the year 2014. This tremendous intergenerational wealth transfer will put a tremendous strain on the industry's ability to continue to grow, on individual manager's abilities to deal with both financial and human resources management issues, and in the social infrastructure of rural Ontario. Many, or perhaps most, of these farms will not continue to be owned by the same family.

There is a need to seriously look at the type of business structures that will succeed in the 21st century. There is a considerable debate that the traditional family farm will continue to be the most successful business unit.

New areas of opportunity including alternate crops and livestock, industrial uses of non-renewable resources, biotechnology and many others will all be areas that are now a part of our agri-food sector or will be as we enter the new millennium.

More work needs to be done on baseline economic data, development of markets, research into the benefits of alternatives, new investment funds, and strategies for moving new products from a research stage to commercial production.

The whole area of agriculture, the environment and the impact on the broader rural community will be a challenge. There will be a continuing challenge to address sustainability and viability of agricultural operations in the ever-changing face of rural Ontario.

Farm organizations and political leaders have focused their "risk management" efforts almost entirely on safety net programs. There is increased recognition among individual producers and agri-business firms of the need for true business risk management information and tools.

The growing concern of consumers, both domestic consumers and export market consumers, about the food they eat will have a significant impact on our whole production system. In the short term at least, there will be a reduction in the quantity of genetically modified products produced, as producers and processors cautiously assess the market for these products.

There are many other factors that will impact on the growth and economic viability of our agri-food industry in Ontario. Some of the additional factors are:

- Transportation
- Impacts on a commodity or sector basis of changing market structures
- Climate change
- Access to capital
- Changing financial structures
- Utility costs in a de-regulated environment
- Availability of affordable, skilled and trained agricultural workers in an expanding provincial economy
- Loss of rural communities as business trading centres
- Access to and management of information
- Biotechnology economics and research based information on impacts of bio-tech
- WTO and other trade agreements worldwide

These factors and many more will play key roles in how our agri-food industry will develop in the first decade of the new millennium. The challenge for the industry is to be ready to address these factors through whatever means necessary to ensure a strong, viable, and sustainable agri-food industry in Canada and closer to home here in Ontario.

E. Report of Actions Taken on Previous Recommendations

The Ontario Agricultural Economics Research and Services Committee's 1998 report did not list any recommendations; therefore no actions are reported at this time.

E. Agricultural Economics Research Priorities

The six main research and service topics in **priority order** are:

1.R isk Management
2.Env ironment
3.C ompetitiveness of the Agri-Food Industry
4.Ec onomic Data and Benchmarking
5.Mar keting
6.T rade

Priority 1 – Risk Management

Issue – Farm organizations and political leaders have focused their "risk management" efforts almost entirely on safety net programs. There is increased recognition among individual producers and agri-business firms of the need for true business risk management information and tools.

Sub-issues identified for more work on the research front included:

- impact of a national income disaster program including program costs versus benefit and integration with existing safety nets
- tools for comprehensive risk assessment
- HACCP in the industry - cost/benefit
- Cost/benefit analysis of meeting national standards for food safety at the farm level

Research Inventory:

23830 Managing agricultural risks. C. Turvey
- 2 years
- Development of empirical evaluation of risk management strategies.

23910 Management options and the role of support policies in minimizing climate related risks and promoting efficiency in Ontario food production. B. Smit
- 3 years
- Development of risk management strategies to handle climate variation.

23530 Managing Change and Uncertainty in Farming and Rural Communities. B. Smit
- 4 years
- To assess the vulnerabilities of rural communities to changes in external conditions, particularly agricultural support programs; to identify strategies to manage risk

Priority 2 - Environment

Issue - The changing face of the rural community from a strong farm base and high farm population to fewer more intensive farm operations and a growing rural population can

and are leading to many issues at the rural/urban and farm/rural interface. Many of the possible solutions to these problems carry costs and benefits to the agri-food industry and to the broader rural community at large.

The following sub-issues were identified as needing more research to help the industry remain viable and sustainable in rural Ontario:

- evaluation of the cost/benefit of Best Management Practices (BMP)
- green taxes and the implication for agriculture
- interaction of agriculture with the broader rural environment and the cost of ensuring a strong agriculture base
- cost/benefit of environmental protection
- need for greater analysis of the impact of bylaws related to environmental issues and the impact on agriculture
- impact of consumer awareness and their purchasing habits as a result of greater emphasis on environmental concerns

Research Inventory

24010 Economic assessment of environmental policy instruments for agricultural production. A. Weersink
- 2 years duration.
- Develop a theoretical model on the social costs and benefits from strategies of public regulation and voluntary adoption of practices to reduce emissions from agriculture.

24220 Evaluation of alternate policy approaches to support adoption of Best Management Practices. S. Hilts
- 3 years duration
- Adoption of conservation practices by farmers and other rural landowners
- Review relevant policy support mechanisms
- Compare policies to encourage adoption of best management practices for several jurisdictions and evaluation Canadian options.

24250 Evaluation of best management practices for increasing nitrogen use efficiency on farms. M Goss.
- 2 years duration.
- Evaluate the use of a potential new test for nitrogen availability from soil and organic amendments, and localized wetland to reduce nitrate leaching and stream contamination.

24360 Developing a framework to assess incentive compatibility of BMPs. Kim Rollins
- 2 years duration
- Develop a model framework that will allow the effectiveness of BMPs to be assessed from an economic and social viewpoint

24290 Economic assessment of mitigation scenarios for greenhouse gases in agriculture. A. Weersink

- 1 year duration
- Estimating the costs associated with the various mitigation strategies considered by the Agriculture and Agri-Food Climate Change Table.

24320 Risk assessment and economic evaluation of environmental damage associated with livestock manure – Dietary strategies and handling alternatives. C. Wagner Riddle
- 4 year duration
- Enhance the DSS by adding information on greenhouse gas emissions.
- Provide estimates of net social welfare impacts of different manure management systems.

Priority 3 - Competitiveness of the Agri-Food Industry

A number of issues were identified under this topic that would require further research. They included:
- future competitiveness with the United States in terms of open borders, supply management and financing
- impacts of fragmented land use planning including new property tax system, on the ability of producers to remain competitive
- increasing resistance to new technology in the rural community
- biotechnology with emphasis on impact, structural changes in the industry, loss of decision making powers at the farm level and the opportunity for new products and new markets
- trends to products rather then commodities
- changing consumer demands and spending patterns and the impacts on the industry
- succession planning for the industry including tax structure impacts, minimum size for success and the level of investment required to assume the farm business of the future

Research Inventory

23930 Economic analysis of farm level competitiveness with respect to inputs, cost of production and sustainability. K. McEwan
- 3 years duration, subject to annual review of assessments to be undertaken during the next year. Evaluating competitiveness by an on-going analysis of farm-level costs and revenue. Innovative business practices are sought from a review of management and production practices

24190 Agricultural sector viability and policy analysis. G. Brinkman
- 4 year duration, subject to annual review of assessments to be undertaken during the next year.
- Provide an integrated assessment of the viability, competitiveness, and sustainability of Ontario's agri-food sector.

Emphasis will be on a study of dairy quota exchange this year. A methodology will be developed to estimate marginal costs for the possible options around the expansion of milk production.

23840 Evaluating the effectiveness of strategic alliance in agri-food and related industries. D. Sparling

- 4 year duration.
- Develop a conceptual model of strategic alliances that will take account of the needs of the emerging life-science industry.
- Develop measures to assess the nature and performance of strategic alliances.
- Performance and evolution of selected strategic alliances will be evaluated.
- Possible implications for public policy resulting from changing technologies will be identified.

Priority 4 - Economic Data and Bench Marking

With the continued movement to a global marketplace it is critical to have accurate economic data and effective benchmarks to determine our producers ability to compete in that marketplace. Key issues identified requiring more work included:

- cost/benefit analysis of new technology on an ongoing basis
- input cost analysis
- competitiveness of the sector versus other jurisdictions
- historical performance data of key sectors of the industry
- cost of production analysis by commodity for Ontario versus other jurisdictions

Research Inventory

24270 Assessment of agricultural research benefits, commodity strategies and policy issues. G. Brinkman

- 4 years
- Considers this issue using a case study approach.
- Information for swine research will be available by April 2000, and other commodities will be considered in each of the next three years.

23920 Economic analysis of the Ontario grain and oilseed sector. B. Doidge

- 1 year duration,
- Determining the value of animal feeds based on their nutrient availability to different species. The project will aim at evaluating feeds for poultry and swine.

23970 Effects of exchange rate variations on international competitiveness of major agri-food products in Ontario. R. Sarker

- 2 years duration

- Impact of exchange rate on the opportunities for marketing agri-food products focusing on sales to the USA.

Priority 5 - Marketing

With the ongoing evolution to a global marketplace and the impact that this will have on the Canadian and Ontario agriculture sectors there was a strong need identified for more work on the following issues:

- impact and benefit of producers developing market opportunities on their own or in cooperation with others in the agri-food industry
- impact on producers of reduced processing capacity with emphasis on pork
- identity preservation and benefits to the producer
- value added and niche markets - what are the benefits and costs
- changes to supply management and the impacts for Ontario commodities

Research Inventory

22960 Estimating the value of pearl millet using a nutrient component value approach vis-à-vis competing feed grains and forage. J. Fisher

- 4 years duration.
- Evaluating the opportunities to develop the market for Ontario's grain and oilseed sector.

Priority 6 - Trade

The ongoing move to a more global marketplace and the continued development of trade partnerships or alliances will create challenges and opportunities for Ontario agriculture. The following issues were put forward requiring more analysis:

- closer examination of trade agreements on Ontario and identifying Ontario specific issues that might be different from the national interest
- understanding of trade agreements and programs - what is red, yellow and green and why is that the case
- projections on the world outlook after next round of negotiations - new barriers, new opportunities, what will be different
- need for some work to identify what opportunities are already out there that producers can utilize

Research Inventory

23720 International agri-food trade and its domestic impacts. K. Meilke

- 2 years
- Develop a framework for an international, multi-commodity, agri-food trade model for the evaluation of the most likely trade liberalization scenarios to be presented during the Millennium Round of multilateral trade negotiations.

Gaps/Barriers/Deficiencies

The gaps/barriers and deficiencies in the research areas will be developed in subsequent Committee meetings.

Appendix i. Committee Membership

ORGANIZATION	NAME	CONTACT INFORMATION
Agricultural Commodity Group	Brian Huges	90 Woodlawn Rd. W. Guelph Ont N1H 1B2 519-766-0544; Fax: 519-766-9775 bhuges@agcommcorp.org
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Ontario Agriculture Training Institute	Elaine Ball	405-491 Eglington Ave. W., Toronto, Ont M5N 1A8; 416-485-3677 or 1-800-668-6284; Fax: 416-485-5661; k_eball@hotmail.com
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ORGANIZATION	NAME	CONTACT INFORMATION
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Toronto Dominion Bank, Agriculture /Agribusiness	Dave Marr	285 Main st. Lucan Ont N0M 2J0 519-666-1875; marrd3@tdbank.ca
University of Guelph, Agriculture Economics & Business	Dr. Kevin Parton	Guelph Ont N1G 2W1 519-824-4120 Ex. 3532; Fax: 519-767-1510; kparton@agec.uoguelph.ca

ORGANIZATION	NAME	CONTACT INFORMATION
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Appendix ii. ONTARIO AGRICULTURAL SERVICES CO-ORDINATING COMMITTEE'S TERMS OF REFERENCE

Mandate

The Ontario Agricultural Services Co-ordinating Committee (OASCC) accepted a proposal in 1971 for the formation of an Agricultural Economics Research and Services Committee.

After a period of inactivity the committee was reformed in 1998 to provide direction for the agricultural economics research funded by OMAFRA. At this time the rural component of the previous committee was removed and formed its own committee.

The purpose of the committee is to identify and prioritize future agricultural economics research and service needs of the stakeholders in the Ontario agri-food industry.

Terms Of Reference

- To identify matters requiring agricultural economics research in the context of the problems and needs of the Province of Ontario.
- To communicate and discuss ongoing research with respect to objectives, procedures and results.
- To assess and make recommendations on:
  - Priorities which attach to the problems so identified;
  - Research needs and attach priorities in terms of research effort, that should be: (a) expanded, (b) maintained at current level, or (c) reduced;
  - Programs and projects in agricultural economics which should be initiated, modified, or terminated; and;
  - Effective co-ordination of research.
- To recommend institutions which, or individuals who, could effectively be responsible for particular research projects.
- To report annually to OASCC summarizing the research area including recommendations on resource use and allocation.

Major interest areas of the committee are as follows:

- Farm Management And Production Economics
  - Cost of production
  - Farm planning models
  - Farm business organization and finance
  - Bio-economics
  - Production economics.
  - Impact of new technology on the farm/rural community

- Marketing:
  - Examining market structure, conduct, and performance
  - Criteria for assessing the performance of policy, marketing boards, and the economy in general.
- Foreign and domestic trade
- More accurate outlook and market information services.

- Natural Resources Development:

- Land use
- Environment
- Land planning
- Human and community needs in society
- Pressure on the environment or land use or the human resource from development
- Socio-economic conditions in the farm/rural community

Committee Structure:

Initially to be formed as a single committee. The committee will determine if working groups or subcommittees are required.